

# Livable Places Update

*Emerging Trends in Community Planning and Design*

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**Looking at Development From the Perspective of Return on Investment:** Past issues of *Livable Places Update* have featured the work of real estate consultant/developer Joe Minicozzi who has successfully demonstrated that revenue-starved cities can garner far more taxes per acre from downtown multi-story buildings than from strip malls and housing subdivisions.

Minicozzi has found this startling fact to be true in communities across the country — from his hometown in Asheville North Carolina to rural communities in Colorado, to the San Joaquin Valley Cities of Modesto, Turlock and Merced. In Modesto, for example, the City and County annually realize almost \$20,000 more per acre in property taxes from a small, three-story, mixed-use building located in the downtown than they earn from a mall located on the urban edge. (The mall covers 94 acres of what was once prime farmland.)

Minicozzi's work has already inspired the City of Modesto to think differently. Following his presentations to city elected officials and citizens, the Modesto city council is now considering code changes that would further encourage mixed-use projects downtown. The measure would still allow some single-story buildings but would also permit buildings as high as 15 floors, with shops or offices on ground level and residential units on higher floors. The new code would also do more to promote sidewalk eateries and other elements to make downtown interesting and appealing.

A similar awakening is also occurring in the City of Turlock. Planning Director Debbie Whitmore reports, "... the innovative ideas that Joe had on how to fund and support development of downtown businesses has been quite inspirational to our local developers. As part of our Smart Valley Places grant, we have a task to update our Downtown Zoning Regulations. Because of his talk, the Downtown is now interested in finding ways to help businesses with the financing of mixed use projects and is paying much more attention to how we support start-up businesses AFTER they open their doors in Downtown."

Minicozzi's work addresses only the income side of the balance sheet — the tax yield per acre from property and sales taxes. He says that any beginning planner is capable of calculating these numbers.

All that is needed, he says, is to obtain public assessors and GIS data from the counties and use this information to build a database of properties in a city. The data indicates the property acreage, assessed value and the corresponding property tax revenues due to local governments. He then evaluates each prop-

erty by dividing its revenue obligation by its acreage to arrive at a measure of the property's land efficiency as a revenue source.

**Looking To The Expense Side Of The Ledger:** There is growing awareness today of the need to look at the expense side of the ledger as well.

Charles Marohn, Executive Director of the nonprofit organization Strong Towns, has noted that since the end of World War II, our cities and towns have financed growth using three basic approaches:

*Transfer payments between governments* — Where the federal or state government makes a direct investment in growth at the local level, such as funding a water or sewer system expansion.

*Transportation spending* — Where transportation infrastructure is used to improve access to a site that can then be developed.

*Public and private-sector debt* — Where cities, developers, companies, and individuals take on debt as part of the development process, whether during construction or through the assumption of a mortgage.

He holds that in each of these mechanisms, both city and county benefit from the new property and sales tax revenues. But, at the same time, it commits to ongoing costs for maintaining and serving the infrastructure. Marohn notes, somewhat dramatically, that "this exchange — a near-term cash advantage for a long-term financial obligation — is one element of a Ponzi scheme."

Local decision makers have generally not had the tools available to calculate whether the revenue collected from a new building or a new subdivision will cover the costs of maintaining the infrastructure over the long run. However, Marohn calls this a ticking time bomb of unfunded liability for infrastructure maintenance. He notes, "the American Society of Civil Engineers (ASCE) estimates the cost at \$5 trillion — but that's just for major infrastructure, not the minor streets, curbs, walks, and pipes that serve our homes. We've simply built in a way that is not financially productive."

This critical fact was easy to overlook because the full maintenance costs of development may not come due until long after city elected officials and staff have retired. Fortunately, tools are now being developed, with the idea in mind that cash-strapped cities really need to begin to examine their return on investment when they approve and dedicate funding to a new development project.

The City of Fresno recently used a new fiscal analysis tool called "RapidFire" (developed by the office of architect Peter Calthorpe) to

compare the return on investment of various development scenarios proposed for Fresno's general plan update. Fresno's lead planner tells us that the RapidFire analysis played a major role in the city council choosing the most compact option, one that focuses half of the City's new growth in the downtown and declining commercial corridors. Faced with increasing budget pressures, the city's elected officials chose the option with the greatest return on investment to the City.

The Sacramento Area Council of Governments developed the Integrated Model for Planning and Cost Scenarios (IMPACS) tool to help communities analyze and estimate the infrastructure and city service needs, capital and operational costs, and expected revenues for specific development scenarios. The tool was piloted in the City of Galt where analysis found that mixed-use development generated a higher ratio of revenue to cost, per-acre, when compared to separated land uses. Contact Raef Porter, RPorter@sacog.org, at SACOG to learn more, attend a training and access the tool.

Meanwhile, on the other side of the country, the Raleigh, North Carolina City Council has adopted a new policy, the result of their growing awareness of the importance of looking at the long term fiscal implications of the city's land use decisions. Planning Director Mitch Silver has shared this policy with the Local Government Commission. It provides a useful policy model: Policy IM 2.4.

*Policy IM 2.4 Return on Investment* states: "Major capital projects not tied to immediate life safety or capacity deficiencies should be subjected to a return on investment analysis as part of the prioritization process. The return on capital projects should be based on the ability of the project to catalyze private investment, make efficient use of existing infrastructure, and generate new net revenues."

While the policy is not fully implemented yet, the Council and public are now more aware of how density helps pay off infrastructure costs sooner and helps keep taxes stable. He says, "The Council and some members of the public are asking "what's the ROI (return on investment)?" more often." As a result, they are seeing more higher density projects approved in areas where previously there was neighborhood opposition. At the same time, he said the city is developing a formula in GIS for the capital planning team to use to evaluate future projects.

Attendees at the 2013 *New Partners for Smart Growth Conference* will have the opportunity to learn more about the growing movement by cities to calculate return on investment of proposed development projects. Joe Minicozzi, Charles Marohn, and Fresno's Mayor, Ashley Swearingen will be featured plenary speakers at the conference, to be held February 7 to 9 in Kansas City, MO. For more information, go to [www.newpartners.org](http://www.newpartners.org).

*Smart Growth and Economic Success: Benefits for Real Estate Developers, Investors, Businesses, and Local Governments* is a new report produced by the EPA's Office of Sustainable Communities. This just-released, downloadable document tells how compact, diverse, and walkable development can increase property values and property tax revenues, encourage job creation, reduce housing and transportation costs, and create amenities and places that improve residents' quality of life.



Downtown development provides cities more revenue per acre than big box retail and costs local government less. Photo: Cover of the EPA Office of Sustainable Communities *Smart Growth and Economic Success* Report.

The report references a study demonstrating that cities can reduce the cost of new housing to the developer by allowing for smaller lots, higher densities and decreased parking requirements. This has the added benefit of making infill development pencil out in places where it hasn't been possible in the past.

Cities can also reduce the cost of living for the homeowner by siting housing in areas that are walkable to daily needs and transit. The report references an index of housing and transportation affordability covering more than 300 U.S. metropolitan areas. It concludes that fewer neighborhoods are considered affordable when transportation costs are included in the calculation. The affordable neighborhoods tend to be compact, walkable, and accessible by public transit.

Portland, OR smart growth policies are allowing residents to drive less, take shorter trips, and use public transit more often compared to residents of other large metropolitan areas. One research project estimates the amount of money Portland residents save on driving compared to the typical resident of other large U.S. metropolitan regions — it totaled \$1.1 billion dollars per year, or about 1.5% of all personal income earned in the region in 2005.

Another study compared the costs for water and sewer service for households on small lots less close to an existing water and wastewater treatment plant versus large lots that are further from treatment facilities. Small lot development reduced costs by more than 25%.

*Smart Growth and Economic Success* is a treasure trove of research relating to the financial aspects of Smart Growth. A PDF can be downloaded by going to: [http://www.epa.gov/smartgrowth/economic\\_success.htm](http://www.epa.gov/smartgrowth/economic_success.htm)